

PROGRAM GUIDELINES
for the
SINGLE FAMILY OWNER OCCUPIED REHABILITATION
PROGRAM



State of Colorado
Department of Local Affairs
Division of Housing

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Single-Family Owner-Occupied Rehabilitation Program

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**State of Colorado
Single Family Owner Occupied Rehabilitation
Program Guidelines**

The Colorado State Housing Board and Division of Housing actively support efforts to improve and sustain the affordable housing stock. One of the mechanisms utilized to accomplish this goal is to provide funding to community based housing organizations and local governments to implement and operate Single Family Owner Occupied Rehabilitation Programs.

This Program, while beneficial to many, is not able to assist all applicants. These Guidelines provide an overview of the Program's structure, eligibility requirements and minimum operating procedures and policies for the day-to-day administration of the Single Family Owner Occupied Rehabilitation Program. Agencies receiving funds from the Division of Housing to implement and operate the Rehabilitation Program must mirror the minimum operating procedures and policies outlined in the Division of Housing Guidelines. Additionally, agencies have the ability to expand policy and procedure over an above the minimum criteria outlined in the Division of Housing Guidelines and to determine their own loan underwriting criteria, interest rates and terms and rehabilitation standards.

Amendments to these Guidelines may be made by the State whenever appropriate to improve program effectiveness and to resolve problems. Exceptions to these Guidelines will require CDOH approval.

The following policy applies to all individuals involved in the Single Family Owner Occupied Rehabilitation Program, including contractors, vendors and housing organization staff and board members.

“No person shall be excluded from participation in, denied the benefit of, or be subjected to discrimination on the basis of his or her religion, religious affiliation, age, race, color ancestry, national origin, sex, marital status, familial status (children), physical or mental disability, sexual orientation, or any other arbitrary cause”.

SECTION 1-ELIGIBILITY

A. Application

A preliminary application must be completed by all person(s) who hold title to the property. This includes listing all household members, their income and asset information, and household bills including mortgage and utility payments.

HUD requires that all agencies receiving federal funds collect applicant demographics. Applicants will be requested to identify race and ethnicity at the time of application. It should be explained to the applicant that this is to meet federal reporting requirements and is not considered a part of the application review.

B. Income

The State requires that all households participating in the Single Family Owner-Occupied Rehabilitation Program (Program) meet specific income limits as determined by HUD, based upon household size.

To be eligible to participate in the Program, household income must not exceed 80 percent (80%) of the median income for the county of residence, which is adjusted for family size.

C Anticipating Income

Annual income is the gross amount of income that is anticipated to be received by all members of the household during the twelve months following the effective date of determination. Income includes all wages, financial assistance for Social Security, Veterans Administration, alimony, child support, unemployment and any other income from any other sources shall be considered as household income. To determine a household's income a "snapshot" of the household's current circumstances is used to project future income. In general, the Grantee should assume that today's circumstances will continue for the next 12 months, unless there is verifiable evidence of the contrary. For example, if a head of household is currently working for \$10.00 per hour, 40 hours per week, the Grantee should assume that this family member will continue to do so for the next year. Thus, estimated earning will be \$10.00 per hour multiplied by 2,080 hours or \$20,800 per year. This method should be used even when it is not clear that the type of income received currently will continue in the coming year. For example, assume a family member has been receiving unemployment benefits of \$100 per month for 16 weeks at the time of income certification. It is unlikely that the family member will continue on unemployment for another 52 weeks. However, because it is not known whether or when the family member will find

employment, the Grantee should use the current circumstances to anticipate annual gross income. Income would therefore be calculated as follows: \$100 per week X 52 weeks, or \$5,200. The exception to this rule is when documentation is provided that current circumstances are about to change. For example, an employer might report that an employee currently makes \$7.50 per hour, but it will increase to \$8.25 an hour eight weeks from the time of income certification. In such cases, income can be calculated based on the information provided. In this example, the calculation would be as follows:

- \$7.50/hour X 40 hours/week X 8 weeks =\$2,400
- \$8.25/hour X 40 hours/week X 44 weeks =\$14,520
- \$2,400 + \$14,520 + \$16,920

D. Verifying Income

The Grantee is responsible for the collection of income and asset verification documentation and such evidence must be retained in each participant's file. Proof of income and assets include but are not limited to the following:

- Most recent pay stubs
- Retirement, disability or social security award letters
- Most recent federal income tax return
- Last two months of all bank statements-checking, savings and any other
- Child support order

Income shall be verified utilizing third party verification format and other such procedures as necessary. Under this form of verification, a third party (employer, Social Security Administration, or public assistance agency) is contacted to provide information to verify income. Although written requests and responses are generally preferred, conversations with a third party are acceptable if documented through a memorandum to the file that notes the contact person, information conveyed, and date of call. In addition a Grantee may obtain third party written verification by fax, email or internet. The Grantee must make adequate effort to ensure the sender is a valid third-party source. Documents provided by the applicant (pay stubs, tax returns, etc.) can be used as an alternative to third party verifications. Although easier to obtain than third-party verifications, a review of documents provided by the applicant often does not provide all necessary information. For instance, an employed applicant's pay stubs may not provide sufficient information about the average number of hours worked, overtime, tips and bonuses. In this case, the Grantee may also need to contact the employer to accurately project annual income.

To conduct third-party verifications, a Grantee must obtain a written release from each household member that authorizes the third party to release required information.

E. Verifying Assets

Assets shall be verified utilizing third party verification format and other such procedures as necessary.

Proof of family size shall include but are not limited to the following:

- Birth certificates for minors
- Driver's license or state issued identification for adults
- Custody orders for minors or disabled adults
- School records for minors

For all households applying for the Program all persons on title are considered household members and all person in residence are considered household members for the purpose of determining eligibility.

F. Lawful Presence

All household members must be legal citizens of the United States. The Grantee must confirm that any individual natural person eighteen years of age or older is lawfully present in the United States pursuant to CRS 24-76.5.101 et seq., when such individual applies for public benefits provided with federal funds. All household members 18 years and older must produce:

- A valid Colorado driver's license or Colorado identification card; or
- A United States military card or a military dependent's card; or
- A United States Coast Guard Merchant Mariner card; or
- A Native American tribal document; **and**
- Execute an Affidavit of Legal Residency, stating:
 - That he or she is a United States citizen or legal permanent resident; or
 - That he or she is otherwise lawfully present in the United States

An Affidavit of Legal Residency must also be collected for all household members including minors. Parents are permitted to sign for minor children.

G. Owner Occupancy

Properties eligible for the Program shall be owner occupied properties and must be the principal residence of the owner (51% or greater of time).

Ownership may be verified by using, but not limited to, the following methods:

- Fee Simple title, or
- 99-year leasehold interest, or
- Ownership or membership in a cooperative, or
- Ownership and Encumbrance (O&E)

Owner occupants will be required to submit to the housing organization, at the time of application, proof of occupancy in the form of a current utility bill. Housing organizations are required to retain a copy of the utility bill in the participant's file.

H. Housing Types

The following is a list of housing stock that is eligible for rehabilitation through the SFOO Housing Rehabilitation Program:

Single Family residential properties

- The property must be the household's principle residence.
- Site built single-family homes.
- Duplexes
- Town homes
- Condominiums
- Manufactured homes on permanent foundations (or properly tied-down) on land owned by the homeowner.
- Maximum \$3,000 in essential repairs for manufactured housing on rented lots.

The following is a list of housing stock that is ineligible for rehabilitation through the SFOO Housing Rehabilitation Program:

- Repairs exceeding \$3,000 on manufactured homes on land not owned by the homeowner (rented lot).
- Rental Housing.

I. Taxes and Insurance

The property must be current on property taxes and proof in the form of a property tax receipt must be provided collected and retained by the Grantee in each participant's file.

The property must have hazard insurance and maintain hazard insurance through the term of the loan and proof of insurance must be provided and retained in the participant's file. Insurance must be adequate to all loans on the property. Residential areas that are designated by FEMA as flood-prone are required to maintain flood insurance in an amount adequate to all loans on the property.

J. Housing Quality Standards Deficiency

The property must have a minimum one (1) Housing Quality Standard (HQS) deficiency to be eligible for rehabilitation. If HOME funds are used the whole property must be brought up to HQS. If CDBG funds are used one HQS violation at a time can be brought up to standards.

K. Loan to Value

The property value after completion of the rehabilitation assistance shall not exceed ninety-five percent (95%) of the median purchase price of the county, taking all liens on the property into consideration. The total debt on the home should not exceed its value. Two (2) options are available to determine the median purchase prices for the county:

- Mortgage limits established through the HUD 203(b) program (FHA Mortgage Limits)
- Perform a local market survey to determine the median purchase price for the county.

Value of the home will be documented using the following methods:

- Assessor records
- Appraisal (no older than 6 months)
- Comparable sales (no older than 6 months)
- Sale price of home, if purchased within the past 6 months.
- Verification of property eligibility will be maintained in each participant's file.

SECTION 2-PROGRAM RESPONSIBILITY AND AUTHORITY

A. Board of Directors

Each housing organization is required to have a Board of Directors. The Board of Directors is responsible for the overall management of the Program.

Responsibilities include:

- Program policy formulation, review and approval
- Periodic review of program implementation
- Grant compliance and reporting
- Development and implementation of guidelines for program loans
- Establishment and oversight of the loan committee
- The development and implementation of policies on the types of loans made from the revolving loan fund
- Implementation of grievance and complaint procedures and review of grievances and complaints

B. Loan Committee

Each housing organization shall have a Loan Committee. The Loan Committee shall have the authority, within these program guidelines, to approve or deny all applications for loans and to recommend policy regarding the Program. The Loan Committee should have representation from the entire program service area and have experience within the field such as lending, banking, real estate, etc. Loan Committee responsibilities include:

- Review and approval or denial of all loan applications
- Determination of loan terms
- Development and implementation of loan policy
- Development and implementation of loan default policy
- Some of the functions of the Loan Committee may be delegated to agency staff. At a minimum, the loan committee will review annually the staff decisions made regarding applicant selection, loan terms, problem loans and foreclosures.

C. Program Staff

Each housing organization shall have qualified staff or may outsource for qualified individuals to administer the program. Qualifications shall include:

- Income eligibility determination
- Loan underwriting
- Rehabilitation inspection
- Construction management

D. Conflict of Interest – see attached policy

That no person who is an employee, agent, consultant, officer, or elected official or appointed official of the recipient, or of any designated public agencies, or of sub recipients that are receiving funds under this part. Or exercise or have exercised any functions or responsibilities with respect to CDOH activities assisted under this part, or who are in a position to participate in a decision making process or gain inside information with regard to such activities, may obtain a financial interest or benefit from a CDOH-assisted activity, or have a financial interest in any contract, subcontract, or agreement with respect to a CDOH -assisted activity, or with respect to the proceeds of the CDOH-assisted activity, either for themselves or those with whom they have business or immediate family ties, during their tenure or for one year thereafter.

If a Grantee encounters a conflict of interest scenario, the following steps **MUST** be followed (please provide explanation to all that apply):

Grantee must send written notification to CDOH; CDOH will consider an exception only after the recipient has provided the following documentation:

- Disclosure of the nature of the conflict, including:
- Person that wishes to receive funds from CDOH:
- Is an employee, agent, consultant, officer, elected official or appointed official of the recipient, or of any designated public agencies, or of sub Grantee that have received funds from CDOH?
- Have participated in any functions or responsibilities with respect to the housing activities,
- Is in a position to participate in a decision making process or gain inside information with regard to such activities,
- May obtain a financial interest or benefit from a assisted activity,
- May have a financial interest in any contract, subcontract, or agreement with respect to a assisted activity, or with respect to the proceeds of the assisted activity, either for themselves or those with whom they have business or immediate family ties, during their tenure or for one year thereafter

Factors to be considered for determining whether to grant a requested exception:

- Whether the exception would provide a significant cost benefit or an essential degree of expertise to the program or project that would otherwise not be available;
- Whether an opportunity was provided for open competitive bidding or negotiation;
- Whether the person affected is a member of a group or class of low- or moderate-income persons intended to be the beneficiaries of the

assisted activity, and the exception will permit such person to receive generally the same interests or benefits as are being made available or provided to the group or class;

- Whether the affected person has withdrawn from his or her functions or responsibilities, or the decision making process with respect to the specific assisted activity in question;
- Whether the interest or benefit was present before the affected person was in a position as described above;
- Whether undue hardship will result either to the recipient or the person affected when weighed against the public interest served by avoiding the prohibited conflict; and
- Any other relevant considerations: Certifying that:
- Employees of the Grantee whom this affects, are not permitted to perform eligibility or certification, re-certification, HQS inspections or any other function concerning the family member's file or their own.
- An outside agency must perform the above listed functions for the family or the employee and inform CDOH of who will be the responsible party.

Grantee must provide written documentation to CDOH that the nature of the conflict of interest and relevant information has been disclosed to the agency's housing board or board of directors and accompanied by an assurance that there has been public disclosure of the conflict and a description of how the public disclosure was made.

Upon the written request of the Grantee, CDOH will consider the exception taking into consideration the factors for determining whether the Grantee has satisfactorily met the requirements.

CDOH may conclude that such an exception will serve to further the effective and efficient administration of the Grantee's program or project, taking into consideration the cumulative effect.

CDOH Asset Manager will respond in writing that the *conflict of interest prohibition has been be waived for good cause or has been denied for good cause* and provide a waiver to the situation citing the factor(s) that were taken into consideration in making the determination.

E. Code of Ethics

Governor Bill Owens adopted the following Code of Ethics in 1999. DOH has chosen to adopt this same code for its SFOO Rehab Program. DOH has included "State Contractors" to the list of those required to follow this code.

Public confidence in the integrity of state government demands that public officials demonstrate the highest ethical standards at all times. Those who serve the people of the State of Colorado as public officials should do so with integrity and honesty, and should discharge their duties in an independent and impartial manner. At the same time, qualified individuals should be encouraged to serve in state government and have reasonable opportunities with all citizens to develop private economic and social interests. This Executive Order strives to accomplish these ends by providing standards by which the conduct of all who serve in the Executive Department of the State of Colorado can be measured.

Code of Ethics - All elected officers, appointees, state contractors and employees of the Executive Department:

- Shall serve the public with respect, concern, courtesy and responsiveness;
- Shall demonstrate the highest standards of personal integrity, truthfulness and honesty and shall through personal conduct inspire public confidence and trust in government;
- Shall not use public office to bestow any preferential benefit to anyone related to the officer, appointee or employee by family, business or social relationship;
- Shall not disclose or use or allow others to use confidential information acquired by virtue of state employment for private gain;
- Shall not accept any compensation, gift, payment of expenses or any other thing of value which would influence him or her to depart from the faithful and impartial discharge of his or her duties;
- Shall not accept any compensation, gift, payment of expenses or any other thing of value as a reward for official action taken;
- Shall not engage in outside employment unless: (1) the outside employment is disclosed to their board of directors or, in the case of an employee, the employee's immediate supervisor; and (2) the outside employment does not interfere with the performance of state duties;
- Shall not use state time, property, equipment or supplies for private gain;
- Shall not knowingly engage in any activity or business which creates a conflict of interest or has an adverse effect on the confidence of the public in the integrity of government;
- Shall carry out all duties as a public servant by exposing corruption or impropriety in government whenever discovered;
- Shall support equal access and employment opportunities in state government for all citizens of the State of Colorado;
- Shall comply at all times with the standards of conduct set forth in title 24, article 18 of the Colorado Revised Statutes

F. Dispute Resolution Process

Each regional housing organization shall develop an informal hearing process to address disputes concerning the administration or work of the SFOO Rehabilitation Program. The following is a suggested format to conduct informal hearings for dispute resolution.

Informal Hearing

The regional housing organization shall provide the homeowner the right to an informal hearing at the homeowner's request to resolve any disputes concerning the program.

The Executive Director of the regional housing organization will select a Hearing Officer. The Hearing Officer should be someone who understands the basics of the SFOO Rehab program and has no bias concerning the dispute.

The procedure for requesting and conducting a hearing will be provided to each homeowner when they are briefed on the SFOO Rehab Program. If a program dispute occurs, the regional housing organization shall make a reasonable attempt to contact the homeowner to inform them of their right to an informal hearing. Sending a certified letter is viewed as a standard way of informing a family of the informal hearing as well.

Hearing Officer

The Hearing Officer will be responsible to conduct the hearing in accordance with the following guidelines:

- The homeowner or the homeowner's representative will first be given an opportunity to present his/her issues regarding the dispute. The homeowner may present evidence or question witnesses at this time.
- The regional housing organization's representative will then have an opportunity to explain their decision or point of view regarding the issue at hand. The representative may present evidence and question witnesses. The homeowner will have the opportunity to question any agency witnesses at this time also.
- The Informal Hearing is not intended to duplicate procedures under judicial review so the rules of admissibility under such proceedings will not be applied in the course of the hearing.
- The Hearing Officer will issue a written decision within 10 business days of the Informal Hearing. Factual decisions related to the individual circumstances of the participant will be based on the evidence presented at the hearing. A copy of the hearing decision will be sent certified mail to the homeowner. The written decision will contain the following:

- a. A summary of the decision and the reasons for the decision;
- b. If the decision is based on money owed, the amount owed shall be stated;
- c. The date the decision goes into effect.

The regional housing organization or homeowner is not bound to the Informal Hearing decisions. The purpose for having an Informal Hearing is to try to remedy a situation prior to an action being taken in civil court. Contrary to HUD regulations or requirements, or Federal, State and local law, evidence presented at the Informal Hearing may be considered without regard to admissibility under the rules of evidence applicable to judicial proceedings.

Homeowners Have the Right To

- Examine and copy (at the homeowner's expense) relevant documents before the Informal Hearing
- Present any or all information pertinent to the issue of the Informal Hearing
- Request that the regional housing organization program staff be available or present at the Informal Hearing to answer questions pertinent to the case
- Be represented by legal counsel or other designated representative at his or her own expense (with five days notice to the regional housing organization of the designated person)

Regional Housing Organizations Have the Right To

- Present evidence and all or any information pertinent to the issue of the Informal Hearing;
- Examine relevant homeowner documents before the Informal Hearing
- Be notified if the homeowner intends to be represented by legal counsel or another party
- Have its attorney present; and
- Have the staff person familiar with the case present.

G. Program Guidelines

Each housing organization shall establish and implement, Board approved, program guidelines and/or policy. Guidelines must also be approved by the CDOH prior to an award of funds. Guidelines should mirror CDOH's guidelines can be more restrictive but not less restrictive.

- Eligibility Criteria
- Eligible Housing Types
- HQS inspections
- Board of Director's roles and responsibilities
- Loan Committee roles and responsibilities

- Program Staff roles and responsibilities
- Conflict of Interest
- Code of Ethics
- Dispute Resolution
- Administrative Requirements and Responsibilities
- Loan approval/denial policy
- Underwriting criteria
- Program Service Area
- Local Support
- Identify which type of Program Income is being utilized
- Lending Guidelines
- Rehabilitation Standards
- Contractor Solicitation and Selection and Contractor bid process
- Equal Opportunity Statement
- Construction Management Procedures
- Affirmative Marketing Plan

H. Affordability Requirements

Single-Family Owner-Occupied Housing Rehabilitation

- The income of the homeowner at the time of the grant or loan must at or below 80% Area Median Income (AMI).
- The home must be their primary residence.
- The homeowner does not need to remain low-income after the rehabilitation of the home.
- For funds provided as a loan to the homeowner, there is no long-term affordability requirement. If the property is sold, the loan must be repaid to the Program.
- For funds provided as a grant to the homeowner, the property must be permanently deed restricted. If the property is sold to a non-low-income household, the grant funds must be repaid to the Program.

CDBG and HDG:

- The income of the homeowner at the time of the grant or loan must at or below 80% Area Median Income (AMI).
- The home must be their primary residence.
- The homeowner does not need to remain low-income after the purchase of the home.
- For funds provided as a loan to the homeowner, there is no long-term affordability requirement. If the property is sold, the loan must be repaid to the Program.
- For funds provided as a grant to the homeowner, the property must be permanently deed restricted. If the property is sold to a non-low-income household, the grant funds must be repaid to the Program.

HOME:

- The income of the homeowner at the time of the grant or loan must at or below 80% Area Median Income (AMI).
- The home must be their primary residence.
- The homeowner does not need to remain low-income after the purchase of the home.
- For funds provided as a grant to the homeowner, the affordability period is in perpetuity.
- For funds provided as a loan to the homeowner, the affordability period is determined by the amount of the loan.

Assistance Per Unit	Affordability Period
\$15,000 or less	= 5 years
\$15,001 - \$40,000	= 10 years
over \$40,000	= 15 years

- During the affordability period, the funds must meet either of the following compliance requirements;
*Recapture (home can be sold to anyone and 100% the funds are paid back) or *Resale (home can only be sold to low-income buyer at an affordable price and must be their primary residence).

SECTION 2- ADMINISTRATIVE RESPONSIBILITY AND AUTHORITY

A. Administrative Requirements

Each housing organization or loan servicing agency must have a system to track loans and payments in the Revolving Loan Fund. At a minimum the following items must be tracked and reported:

- Borrower name and address
- Principal amount
- Loan term and interest rate
- Loan closing date

B.. Administrative Procedures

Regional housing organizations must have a system to track the loans and payments in the Revolving Loan Fund. This system may be automated or manual. A minimum the following items should be tracked.

- Name and address of borrower
 - Principal amount
 - Term and interest rate
 - Date of loan closing
 - First and last payment due date
 - Amount of monthly payment
 - Sources and percentage of funds used for loan
 - Delinquent payment notations
 - Default flags
 - Payoff amount calculation
 - Borrower demographics
 - Documentation – The following documents are required for each revolving loan fund program.
- **Loan Committee Proposed Loan Summary Sheet** – A summary that provides anonymous borrower information to the regional housing organization Loan Committee should include the following information:
 - Borrower's income.
 - Work or activity to be undertaken.
 - Proposed term and interest rate, including the payment amount.
 - Ratio calculation to estimate ability to make payments within each of the options.

- **Boilerplate Loan Approval/Denial Letters** – Each of these letters require Loan Committee approval. The loan committee also determines who signs these letters and who should be the contact in the event of an appeal of the loan decision.
- **Loan Servicing** - The regional housing organization must utilize a loan servicing system that, at a minimum, can perform the following:
 - Accepts and logs current payments.
 - Splits payment into principal and interest.
 - Splits payment into appropriate funding source(s).
 - Splits payment into program and administration.
 - Has the ability to accept extra payments.
 - Recognizes loans that are delinquent or in default and issues late letters.
 - Prepares a year-end statement for the borrower's tax returns.
 - Summarizes loan portfolio information upon request and for annual reports to DOH.

Default/Foreclosure - The regional housing organization must define:

- Stages of delinquency or default (30 days late, 60 days late, etc.).
- Steps to be taken at each stage of a delinquency action.
- A workout process for curing deficiency.
- The foreclosure process
- First and last payment due date
- Monthly payment interest and principal
- Year end statements for borrowers

C. Program Administrative Costs

The Program allows 18-20% of the awarded project dollars for administrative expenses related to running the Program or actual documented costs. Administrative costs may be incurred by staff or by third parties with whom your organization has contracted and include:

- General management, oversight and coordination
- Staff salary and benefits
- Public information
- Fair Housing requirements
- Reporting

Administrative funds can only be used for costs related to the Program. The Grantee must ensure that their financial management procedures allow for tracking the amount of funds spent for program administration and what these funds were spent on.

D. Project Administrative Costs

Project administrative costs include the direct and indirect costs associated with operating the Program, such as:

- Program marketing
- Applicant intake
- Loan Underwriting
- Preparation of work write ups and cost estimates
- Environmental Review
- Project inspections and oversight
- Staff costs spent on projects
- Title searches, credit reports
- Appraisal fees, recording fees

E. Reimbursement Procedures

Reimbursement by DOH for SFOO activities may only occur if:

- The activities occur **after** the execution date of the DOH contract, and
- The activities are being completed according to the policies and procedures contained within these guidelines.

In order to receive reimbursement for activities covered by the DOH grant, regional housing organizations need to do the following:

- Complete and sign **3 copies** (all 3 need original signatures) of the "Request for Payment" form supplied by the assigned DOH asset manager.
- Attached **one** copy of back-up documentation for each job for which reimbursement is being requested. Back-up documentation should include a copy of the Work Write-Up, which lists the property address and owner name, as well as a description of the rehabilitation work that has been completed.
- Administrative cost draw downs should be spread over the term of the contract, all administrative costs may **not** be drawn down at the beginning of the contract term.
- For HOME grantees, the regional housing organization must also complete and attach for each home the HUD-40094 "Rental/Homebuyer/Homeowner Rehab Set-Up Report" available at <http://www.hudclips.org/cgi/index.cgi>. Note: Later, the HUD-40096 "Homebuyer/Homeowner Rehab Completion Report" will also need to be completed on each home before the DOH contract is closed.
- The packet containing the above documents is mailed to the assigned asset manager. Once received by DOH, reimbursement requests take two to three weeks to process and mail to the grantee.

F. Quarterly and Annual Reporting

Grantees are required to submit quarterly financial and performance reports and participate in an annual program survey. Program Income reports continue even when the Program is no longer active. Program Income reports must continue as long as there is Revolving Loan Fund activity.

G. Affirmative Marketing

The Grantee shall ensure marketing of program availability. The Grantee shall also ensure that bilingual materials are available for owners. The Grantee, when requested, shall provide bilingual interpretation to property owners to understand all program and application materials and to answer any questions.

H. Verification of Continued Occupancy Requirement

The property owner, if approved for a loan, must submit annually for the term of the loan proof of occupancy in the form of a copy of a current utility bill **and** a statement from the property owner that they reside on the premises and that the unit's current and continued use is as a primary residence. If the borrower does not continue to both occupy and own the rehabilitated property the loan will go into default and is immediately due and payable.

I. Program Service Area

- Each Revolving Loan Fund Program has a specific geographic territory as defined in the contract between the DOH and the regional housing organization.
- The expansion of existing or new Revolving Loan Fund Program(s) into areas of the State without a current program is encouraged.
- It is expected that funds provided to a multi-county regional housing organization for the Revolving Loan Fund Programs be equitably distributed across the program service area.
- The minimum program service area for a Revolving Loan Fund Program is a single county (if it contains a Metropolitan Statistical Area [MSA]) or two or more rural counties (no MSA in service area). Exceptions from the minimum program service area may be granted by DOH upon request.

J. Local Support

The local political and financial support for the SFOO Housing Rehabilitation Program is essential to the on-going performance of the program. Eligible evidence of local political support includes:

- Government sponsorship of the DOH Grant Application.
- Letters of support for the program from local governments.
- Letters of support from local service organizations.

While there is no established minimum local financial contribution, each regional housing organization is expected to demonstrate some level of local financial contribution. Eligible local financial contributions include:

- Cash from non-federal, state, or local sources.
- In-kind contributions of personnel, office space, vehicle use, or other program administration expenses.
- Building permit and inspection fee reductions or waivers.
- Construction materials and/or on-site construction assistance.

SECTION 3- Program Income

A. Program Income

All revenues received by the Grantee or loan servicing agency which result directly from a CDOH subsidized activity will be considered Program Income. Program Income and expenditures must be reported to the CDOH on a quarterly basis. Program Income includes, but is not limited to:

- Principal and interest payments
- Proceeds from the sale or acquired assets
- Pay offs

The Grantee may not have more than \$25,000 in Program Income before requesting additional funds for rehabilitation loans. The housing organization will ensure that fund use is maximized and that balances do not lie dormant. The Program Income and expenditures must be reported to the CDOH on a quarterly basis. The CDOH may recapture Program Income that remains dormant for more than 12 consecutive months.

B. CDBG Program Income

“Program Income” means gross income received by a Grantee: the state,-unit of general local government (UGLG) or a sub-recipient of a unit of local government (sub-grantee) that was generated from the use of CDBG funds, except that program income does not include the total amount of funds which is less than \$25,000 received in a single year that is retained by a unit of general local government and its sub-grantees. When such income is generated by an activity that is partially assisted with CDBG funds, the income shall be prorated to reflect the percentage of CDBG funds used. CDOH definition of Program Income includes, but is not limited to the following: payments of principal and interest on loans made using CDBG funds:

1. Proceeds from the sale of loans made with CDBG funds;
2. Proceeds from the sale of obligations secured by loans made with CDBG funds
3. Interest earned on funds held in a revolving fund account; and
4. Interest earned on program income pending disposition of such income;

C. CDBG Revolving fund (RLF)

RLF means a separate fund (with a set of accounts that are independent of other program accounts) established for the purposes of carrying out specific activities which, in turn, generate payments to the fund for use in carrying out such activities.

1. Payments to the RLF are program income and must be substantially disbursed if from the revolving fund before additional grant funds are drawn from the state for revolving fund activities.
2. RLF accounts established by a Grantee (UGLG) may not be directly funded or capitalized with grant funds.
3. The RLF can be used for any CDBG eligible activity as long as it meets a national objective and it receives prior approval from CDOH. Most important thing to remember is with all RLF projects no portion of the project can move forward until all rules and regulations are met.
4. The RLF can be used in conjunction with any CDBG Program. The community must notify the RLF Coordinator of their intent with \$\$ amount(s). When the RLF is used with another program (i.e. Water & Sewer, Downtown Revitalization, Housing Project etc.) those program guidelines apply to the RLF. Once RLF is used for another activity it is considered regular. Program Income and must to be spent first before drawing down any funds from the State
5. Expenditures from the RLF account must be made in accordance with the CDOH revolving fund guidelines as approved by the state and according to all applicable federal and state laws and regulations (i.e. including but not limited to, prevailing wage, environmental review, eligibility, national objective, proper procurement procedures).
6. Timely disbursement of available balance Pursuant to 24 CRF 570.489, CDOH requires that substantially all program income cash on hand be disbursed for loans, or committed for loans, before additional funding will be awarded via Draws through an open contract. If any RLF balance in excess of \$250,000 will be deemed by CDOH to be a substantial amount and will be required to be disbursed first before applying for other CDBG Program funds. This will be used to evaluate an Housing Agency's capacity. For future requests
7. Communities with large RLF balances and/or no activity (within 1 year) will be required to use their RLF on CDBG eligible activities or returned to the State unless a plan of action is provided outlining its use and timeline.

D. CDBG Program Income Converted to Miscellaneous Income: Activities carried out by 105(a) (15) Nonprofit Entities

1. *In 2003 CDOH allowed regional housing organizations that have been designated “nonprofit organizations serving the development needs of the communities in non-entitlement areas” to receive approval to convert their Program Income into Miscellaneous income.*
2. Section 105(a)(15) of the HCDA allows the provision for the assistance to neighborhood-based non-profit organizations, local development corporations, and non-profit organizations serving the development needs of communities in non-entitlement areas to carry out neighborhood revitalization, community economic development or energy conservation projects.
3. According to 24 CFR 570.489(e) (2) (ii), “amounts generated by activities under Section 05(a) (15) of the Act and carried out by an entity under the authority of Section 105(a) (15) of the Act” are not considered Program Income.
4. CDOH is looking to minimize the amount of funds that must be treated as program income and in efforts to take advantage of this exemption and encourages Grantees to form sub-grantee relationships with local nonprofit organizations to administer Section 105(a)(15) activities
5. CDOH seeks to use CDBG funds to establish and support regional housing rehabilitation loan funds throughout the state by funding housing rehabilitation and down payment assistance programs that will have full control and be administered by nonprofit organizations. In this scenario, CDOH grant funds to a Grantee (UGLG), passing the funds onto a nonprofit organization that is an eligible 105(a) (15) entity which directly administers all aspects of the housing rehabilitation or down payment assistance program.
6. The non-profit would carry out the housing rehabilitation or down payment assistance program; repayments would be made directly back to the non-profit. That eligible nonprofit entity is to make subsequent rehabilitation and down payment loans. If the repayment of that loan is made to the nonprofit organization and the nonprofit retains the repayments for further use continuing the same activity, repayments are not considered program income; subsequent loans by the nonprofit entity using those funds do not have to meet any Federal requirements, however must be in accordance with the CDOH guidelines.
7. CDOH requires Grantees to use funds according to the CDOH guidelines to ensure that subsequent Miscellaneous Income is expended on

community development needs continuing the same activities (SFOO Rehab and DPA loans). Miscellaneous Income will be tracked and reported to CDOH annually.

D. HOME Program Income

HOME Program Income includes, but is not limited to:

1. Proceeds from the sale or long-term lease of real property acquired, rehabilitated or constructed with HOME funds or matching contributions;
2. Income from the use or rental of real property owned the Grantee , or Sub Grantee that was acquired, rehabilitated, or constructed with HOME funds or matching contributions, minus the costs incidental to generating that income;
3. Payments of principal and interest on loans made with HOME or matching funds, and proceeds from the sale of loans or obligations secured by loans made with HOME or matching contributions;
4. Interest or other return on investment under 92.205(b) of HOME and matching funds.
5. Interest earned on program income pending distribution.

SECTION 6-LENDING GUIDELINES

A. Equal Opportunity

The Grantee will operate as an equal opportunity lender. The Grantee will not discriminate against anyone in its lending practices or in any other of its decision making processes because of race, color, religion, gender, handicap, family status or national origin.

B. Eligible Fees

The Grantee may not charge borrowers an origination fee. They may, however, charge a reasonable fee for the credit report and title work and/or homeownership counseling. The Grantee may charge borrower's reasonable late fees and, in the event of delinquency or foreclosure, reasonable legal fees.

The Grantee may charge a loan service fee using the market rate if using an outside provider. If service is provided by the Grantee up to \$20 per month, per loan may be charged. The Grantee may not receive CDOH funding for these fees and charge the borrower simultaneously. The amount paid to the Grantee for loan servicing cannot exceed actual agency costs for providing this service. The service fees cannot be taken out of the Revolving Loan Fund (RLF).

The Grantee may charge a monthly loan-servicing fee, but must demonstrate and justify the cost of this fee. A written cost analysis for the fee charged must be kept on file at the Grantee's offices and made available upon request by Colorado Division of Housing staff. In addition, a comparison of the private market servicing fee costs must be done and kept on file as well.

C. Loan Limit

The CDOH has established a loan limit of \$24,999 unless approved, in writing, by the Colorado Division of Housing. Loans exceeding the \$24,999 cap may be approved on a case by case basis. Approval must be obtained in writing from the CDOH and retained in the individual participant's file. Total indebtedness against the property cannot exceed up to nine-five percent (95%) loan to value.

D. Loan Types

The Loan Committee may consider and make, but are not limited to, the following types of loans:

- Deferred payment loans where no payment is due until a specific date, or when the property is sold or changes ownership (up to 25% of loan portfolio).
- Fully amortized loans at varying interest rates and terms as specified by the written loan terms and criteria.

All or part of the loan may be deferred for households that do not qualify for an amortized loan. Up to twenty five percent (25%) of the value of the Rehabilitation Loan Portfolio may be in deferred loans. This percentage may be increased with approval from the State.

E. Interest Rates and Terms

The Loan Committee based on the individual applicant's needs and circumstances determines interest rates and terms. Interest rates and term are established by the Loan Committee and may vary from 1% to 6%, and one (1) to thirty (30) years.

F. Loan Approval

- Loan approval must be based on a review of the potential borrower's ability to repay the loan.
- Credit scoring or other methods of determining the borrower's ability to repay the loan may be used.
- Loan approval terms are encouraged to be as flexible as possible, while maintaining the stability of the loan portfolio.

G. Second or Supplemental Loans

Second or supplemental loans are permissible. In the event a client requests a second loan from the program, a complete new application is necessary if request is made after 120 days of the first application. A separate loan can be set up, but whenever practical, the principal amount of any second loan should be added to the unpaid principal of the first loan, either raising the monthly payment amount or extending the term. A modification of the Deed-of-Trust must be recorded to reflect the change in the loan. A full work write up should be completed even if only performing an emergency repair. If more than one loan is made for the same family administrative fees will not be reimbursed.

H. Loan Security

Loans will be evidenced by a Promissory Note secured by a Deed of Trust on the property. Loans may not be in a junior position beyond a second trust deed. A Deed-of-Trust will be properly recorded, and will include the following provisions:

- Fire and extended insurance coverage is required for the amount of the total indebtedness against the property, with the loss payable to the housing organization and the CDOH as beneficiaries. Coverage is to be continued for the term of the note, or until payment in full is received.
- Flood insurance coverage, where required, for the amount of the total indebtedness against the property, with the loss payable to

the housing organization and the CDOH as beneficiaries. Coverage is to be continued for the term of the Note, or until payment in full is received.

- If the property is transferred by sale or descent, the unpaid balance of the loan will be due and payable immediately. Descent to co-borrower is excluded from this provision.

For the purposes of this Program, “sale or transfer of title” shall mean any sale or transfer that will cause the assisted property to be reassessed by the Assessor’s Office.

In the event that the assisted property is refinanced and the refinancing produced net proceeds (beyond the amount needed to pay off secured loans and/or make further capital improvements to the assisted property), then any such net proceeds of the refinancing shall first be applied to reducing the principal amount of the loan.

The Loan Agreement and/or the Promissory Note shall identify the following:

- The annual percentage rate
- The finance charge
- The amount financed
- The total of all payments
- The number of monthly payments
- The amount of the monthly payments
- When the monthly payments are due
- The maturity date of the note
- Description of property given as security
- Itemization of other fees charged to loan (filing, O&E, credit report, etc.)

All Program legal documents must be approved as-to -form by the housing organization Attorney prior to use.

I. Due on Sale Clause

All loans shall contain a “Due on Sale or Death” clause. In the event that title to the property changes ownership, the housing organization will exercise the Due on Death/Sale clause.

J. Sale of Foreclosed Property

A foreclosed property may be soled to anyone, regardless of income. If a potential buyer is income qualified and unable to acquire conventional financing, the Program may choose to service the loan. The client shall be required to submit a credit application and demonstrate the ability to make any required

monthly payments. The Loan Committee shall make this decision after review of the application and credit report.

K. Loan Deferrals

- Up to twenty-five percent (25%) of the value of the SFOO Housing Rehabilitation Loan portfolio may be in deferred loans.
- Regional housing organizations may increase the percentage of deferred loans with Approval from the Colorado Division of Housing.
- The regional housing organization's Board of Directors or Loan Committee will establish guidelines concerning the granting of deferred loans, using criteria such as age of household, household income, ability to pay monthly loan payments, and the type of rehabilitation work anticipated.
- Deferral of all or part of a SFOO Housing Rehabilitation Program loan is encouraged for households that do not qualify for an amortizing loan.

F. General Lending Requirement

- All loans for families that are at 40% AMI are non-forgivable.
- Loans to families that are below 40 % AMI may be forgiven over the life of the loan.
- Loans will be either;
 - Amortizing with monthly payments.
 - Deferred and due upon the sale or transfer of ownership of the property or upon the death of the borrower.
- All loans must be secured by a promissory note and deed of trust.
- Loan terms and rates must be consistently applied.
- All loans must be designed to allow for future adjustments in response to changes in the financial capability of the household.
 - A periodic review of the loan portfolio for potential loan adjustments is required every three (3) years.
 - This loan adjustment requirement language must be included in the promissory note.

SECTION 7-REHABILITATION

A. Environmental Review Inspection

Before any funds can be obligated, expended or drawn down from the State, the grantee must complete the appropriate environmental review, submit it to the Division of Housing, and be issued a Release of Funds (ROF) letter from the State. Grantees should review the environmental review guidelines section of the CDBG Guidebook, located on the Colorado Department of Local Affairs website at www.dola.state.co.us/dlg/fa/cdbg/cdbg_guidbook.html#section_iv

SFOO rehabilitation projects will qualify as “Categorically Excluded.” For these projects, the grantee must complete both Exhibit IV-C (also known as the Statutory Checklist). Upon completion of the Statutory Checklist, a determination is made by the grantee and certifying official as to the environmental impact of the project. If no federal laws and authorities are found to be relevant to the project, the certifying official may make a finding that the project is exempt under 24 CF. R 58.34(a) (10)

Each individual unit must meet federal environmental standards for historic protection, floodplain designation and noise standards. The Grantee must conduct a review and complete an Individual Housing Unit Final Environmental Clearance Form (Exhibit IV-M) verifying that the unit to be rehabilitated has been inspected to determine historic protection, floodplain designation and noise standards. The form must be retained in each participant’s file.

B. Historical Review Inspection

If a home is over 50 years old, and the work write-up includes exterior changes or improvements, the State of Colorado Historical Society shall be consulted. Verification of correspondence must be kept in each participant’s file.

C. Before and After Photographs

Pictures of the interior and exterior of the property will be taken before and after the work is completed. All photos will be dated and copies kept in the client’s file.

D. Initial HQS Inspection

The property must have an initial inspection and determined to have a minimum one (1) Housing Quality Standard (HQS) violation. Each home must be evaluated for compliance with the HUD Section 8 Housing Quality Standards (HQS). The HQS is used as the basis to identify needed repairs and appropriate improvements. The initial HQS inspection shall be conducted by a qualified property inspector to determine eligible repair items and cost estimates. The inspector shall base the estimate on current industry prices of material and wages for the type of work being completed.

E. Interim Inspections

The Grantee shall ensure that interim progress inspections are conducted to ensure the continued quality of all construction, including adherence to the scope of work and building codes. All such inspections shall be conducted prior to the release of any progress payments.

F. Lead-Based Paint

Properties constructed prior to 1978 will require that a Lead Based Paint Notice be given to all property owners. Evidence that the notice has been provided to the participant must be retained in each participant's file. Prior to or during the initial inspection a lead-based paint evaluation, by a qualified inspector, will be completed. If lead based paint issues are found, the Rehab Specialist will determine the required actions and estimate costs to determine whether the project is suitable for rehabilitation within the constraints of the Program. This is required through the HUD regulations found in 24 CFR Part 35.

G. Eligible Rehabilitation Costs

The goal of the Program is to remove deficiencies or health and safety items, improve energy efficiency, and correct substandard conditions, correct violations of local housing codes. Each housing organization must develop and implement housing rehabilitation standards that define the quality of materials and workmanship that must be used. Rehabilitation standards refer to the quality, durability and aesthetics of material. All improvements must be physically attached to the property and permanent in nature. Examples of eligible items include:

- Modifications which aid the mobility of the elderly and physically disabled such as shower units with seats, lever hardware, retrofitting toilets to achieve adequate height, moving power points and light switches, ramping reconstructing doorways, lowering sinks in kitchens and bathrooms.
- Item that assists to weatherize and improve energy conservation such as insulation, caulking, weather stripping, window and door repair or replacement, and heating system repair or replacement.
- Exterior work that helps to preserve or protect structures such as painting, roofing repair or replacement, grading of site to control flooding, skirting, re-leveling, bracing, door locks, structural or foundation damage, repair of non-public sidewalks and utility connections from the project property line to the adjacent street.
- Interior work that improves the livable conditions such as electrical repair or rewiring, plumbing repair, damaged floor replacement where it poses a hazard, door and door lock repair or replacement, painting, abatement of lead-based paint hazards, replacement of inoperable built-in appliances.

General property improvements may be eligible up to 15 percent (15%) of the loan. Examples of general improvements include fence repairs, exterior paint or items to improve the appearance of the property but are not health and safety items. Public sidewalks, driveways, roads and streets are not eligible.

All completed rehabilitation activities in each home must meet the construction standards of the locally adopted building codes. In the absence of a local building code, the completed rehabilitation activities must meet the standards of the most current International Residential Code.

H. Replacement Housing

Replacement housing is an eligible activity if the costs associated with the repair of the existing home exceed the cost of the providing a replacement home. It is necessary that the homeowner have the financial ability to finance the difference between the maximum rehabilitation cost and the total replacement cost. Generally the replacement housing would be a used or new manufactured housing unit.

I. Emergency Repair Loans

Emergency repair loans may be made. Emergency repair loans are intended to address any specific hazards that pose an immediate danger to the health and safety of the applicant, including critical damage to structural condition due to acts of nature, or mechanical system failures creating unsafe or unsanitary conditions. Applicants for emergency repair loans must meet the eligibility requirements for the Program. Emergency repair loans shall not exceed \$10,000.00 per applicant. The CDOH does not require Loan Committee approval in emergency situations.

J. Field Work Specifications

Housing rehabilitation construction and repair activities completed for each home must include the following procedures:

- **Initial Property Inspection** - Each home to be completed through the SFOO Housing Rehabilitation Program must be evaluated for compliance with the HUD Section 8 Housing Quality Standards (HQS). The HQS is used as the basis for the initial inspection of the existing property to identify needed repairs and appropriate improvements.
- **Rehabilitation Work Write-up** - Each property must have a detailed work write-up that describes the planned rehabilitation activities to be completed in each home. The staff of the regional housing organization, with consultation and approval of the homeowner, completes the work write-up.

- **Contractor Walk-Through and Bid Opening** – Each regional housing organization is expected to have a contractor walk-through and participate in an open bid process that allows for all qualified and interested contractors access to each potential rehabilitation project. Private sector contractors should bid on multiple task housing rehab projects, while single task rehab projects can be coordinated by the Rehab Agency.
- **Building Code Compliance** - All completed rehabilitation activities in each home must meet the construction standards of the locally adopted building code. In the absence of a local building code, the completed rehabilitation activities must meet the standards of the 2003 International Residential Code.
- **Housing Rehabilitation Specifications** - Each regional housing organization must develop and maintain a written housing rehabilitation standard that defines the quality of materials and workmanship that must be used when a particular repair is made. Rehabilitation Specifications (or construction standards) refer to the quality, durability, and aesthetics of the completed rehabilitation project.
 - All rehabilitation activities are to be completed in a professional manner.
 - Rehabilitation activities are required, at a minimum, to bring the physical condition of the entire property in compliance with HQS.
 - If the cost of the rehabilitation activities necessary to meet HQS is greater than the loan amount or \$24,999 maximum, the staff of the regional housing organization, in consultation with the homeowner, will prioritize the list of rehabilitation activities. It is expected, in some cases, that the maximum loan amount for a given property will not cover the cost of all rehabilitation activities necessary to meet HQS.
 - Secondary measures, such as cosmetic repairs and convenience items that may enhance the home or neighborhood, may be installed in a home only after the rehabilitation activities for HQS are completed. No more than twenty percent (20%) of the rehabilitation loan may be spent on secondary measures.

K. Advertising and Marketing

Each housing development organization is expected to track demographic data, develop and maintain affirmative marketing and advertising programs that assist in meeting the minimum program production goals and further fair housing opportunities, as well as advancing the use of the program by all qualified households across the entire program service area. The advertising and marketing plan will include:

- Regional housing organization staff responsibilities concerning advertising and marketing.
- Training procedures for all staff and Board members responsible for advertising and marketing.
- Marketing strategies that may include:
 - Brochures
 - Speakers bureau

- TV and radio advertisements
- Realtors
- Contacts at senior centers,
- child care facilities, and social services offices
- Church groups
- Yard signs
- Banks and other local lenders
- Contractors Local building code departments
- Procedures designed to measure the success of each marketing strategy.

SECTION 6 - CONTRACTING

A. Contractor Insurance Requirement

Verification of construction contractor eligibility will be maintained in each participant file along with all applicable documentation. Contractors must meet the following insurance requirements:

- Carry Worker's Compensation Insurance.
- Carry a minimum of \$500,000 in liability insurance.

B. Contractor License

Contractors must be licensed in the type of work they are providing. Additionally Contractors must be licensed within that jurisdiction, if required by the jurisdiction.

C. Contractor Debarment

A Contractor is not eligible to perform work if they are on the Federal Debarment List. The Grantee is responsible for verifying each contractor's eligibility by checking the Excluded Parties website for each contractor at www.epls.arnet.gov. The Grantee will do a print screen of the contractor query and place the copy in the participant's file.

D. Contractor Selection

The homeowner will be responsible for selecting the contractor. Construction contracts shall be between the homeowner and the construction contractor. Contracts shall include a description of the work, contract amount warranties, provisions, conditions and restrictions for parties, start and completion dates, schedule of payments and other contractual items. The contractor will be responsible for making sure all required permits have been secured, depending on the type of work to be performed.

E. Contractor Responsibility

The contractor will be responsible to ensure that all inspection that are required by permit are conducted and that applicable items pass inspection.

F. Minority and Women Business Enterprises Marketing

The Grantee will conduct affirmative marketing outreach efforts to notify minority business enterprises and women business enterprises of bidding and contract opportunities under this Program.